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SUBJECT: AUSTRALIAN VIEWS ON EMISSIONS TRADING AND UNFCCC

REF: A. CANBERRA 897

[1](#)B. CANBERRA 819

Classified By: Deputy Chief of Mission Daniel A. Clune, Reasons 1.4(b)(
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[1](#)1. (C/NF) Summary: Department of Climate Change (DCC) Secretary Martin Parkinson, who is in charge of developing Australia's emissions trading plan, highlighted the challenges of dealing with Emissions Intensive Trade Exposed (EITE) industries and the importance of the U.S. role in international negotiations during a September 8 lunch hosted by the DCM. Acknowledging calls for a consumption based system (now termed a Carbon Pollution Reduction Scheme aka CPRS), Parkinson, said that any shift away from production-based carbon pricing schemes would wreck international negotiations toward a post-2012 framework. It would also open the door to rampant trade protectionism. Though convinced that their methods for addressing compensation for EITE industries will work, Parkinson and his colleagues suggested that the Prime Minister has set the government back by indicating so early in the process a willingness to negotiate with business on this issue. In international negotiations, Australia is very concerned that progress toward an agreement by December 2009 will be seriously hampered by the change in administrations in the U.S., and that domestic action in the U.S. is more likely before agreement to a binding international treaty. End Summary.

[1](#)2. (SBU) A well-respected former Treasury official, Parkinson heads DCC under Minister Penny Wong, and was selected by the Rudd Government for his expertise developed as the head of the Prime Ministerial Task Group on Emissions Trading under former PM John Howard. He was accompanied to the September 8 lunch by Deputy Secretary Blair Comley and Ambassador Jan Adams. Comley is responsible for developing the nuts and bolts of the CPRS. He is a transplant from Treasury, where he worked with Parkinson in developing and implementing the General Services Tax (GST) scheme (Ref B). A career diplomat who has served in Washington, Ambassador Jan Adams is the senior international negotiator under Deputy Secretary Howard Bamsey. She has been carried over by the Rudd government to continue working towards an international agreement to succeed the Kyoto Protocol in 2012.

Consumption Function

[1](#)3. (C/NF) The DCM asked why there had been so little discussion of consumption-side measures in Australia, which has placed its focus entirely on pricing carbon at the point

of production through its CPRS. Parkinson said that while there were some theoretical attractions to pricing carbon at the level of consumption, the practical challenges are overwhelming. This is because of the complexity of determining the carbon emissions represented by a given good depending on the source of energy and the production techniques. As a result, any move to a consumption-based system would run contrary to the current international framework and trading system. Since the inception of international climate change negotiations in the early 1990s, Parkinson said, the focus has always been on pricing carbon in production. To switch now, or to suggest that consumption measures would be a more effective mechanism of reducing emissions, would fundamentally undermine progress towards a new global agreement. Australia would be "laughed out of the room" if they now suggested that consumption measures be considered in the global context, he said. Further, the development of rules of origin and other monitoring tools to determine the carbon content of widely-traded goods in the international trade arena was a "stalking horse" for protectionism. Those tools, Parkinson said, would be crafted by special interests seeking trade protection, not emissions reductions. He noted that it is no coincidence that some of the support in Australia for such measures comes from those who opposed trade liberalization in the 1980s and 1990s.

14. (C/NF) Comley explained current DCC thinking on the question of how to treat EITEs, saying that while the reaction from industry was strong and understandable, there were few better ways to establish clear and transparent rules. DCC's "Green Paper," released at the end of July, set out thresholds for determining emissions intensity per million dollars (Australian) of revenue (Ref B). This left many of the largest earners in Australia, especially the LNG sector, below that threshold, where they would receive no assistance from the government to equalize their prices against those of international competitors. The claim that DCC should use value added or some other measure as a part of that threshold, Comley said, was misguided. While revenue volatility was high, value added volatility was even higher. Further, the overhead costs of demonstrating value added to any given export product was higher than that needed to calculate revenue.

15. (C/NF) DCC was frustrated, according to both Parkinson and Comley, that industry was resisting so strongly measures that would have such a small impact on their current earnings. For example, LNG developers were haggling over an amount below two percent of revenues. The DCM noted that even two percent of revenue can have a huge impact on investment decisions. DCC is inclined to stick to their guns, but Comley recognized the difficult political problem created by even such small estimated costs. The ongoing negotiations, Parkinson admitted, had not been helped by the fact that PM Rudd had basically agreed right out of the gate in late July that there was room to negotiate with industry. Comley's views appear to conflict with that of industry; Australia Industry Greenhouse Network CEO Michael Hitchens told econoff on September 8 that his membership believes that government has admitted it erred by using revenue as a denominator and is moving towards using value added calculations instead.

Something Rotten in Denmark

16. (C/NF) Turning to international negotiations, Ambassador Adams said she was "very concerned" that the change of administrations in the U.S. will cripple negotiations on the UN Framework Convention on Climate Change successor to the Kyoto Protocol. Adams said the bulk of international negotiators, including most Europeans, are certain that the new U.S. administration will be ready to participate substantively in early 2009, and expect a much more "cooperative" policy from the U.S. Adams said her view had always been that this was incorrect, and she had argued against taking on the December 2009 goal for negotiating an agreement because of the U.S. political calendar.

17. (C/NF) Adams assessed that any agreement that contains a specific target for the U.S. will have a hard time securing 67 votes in the Senate, and that it is more likely that the U.S. will pass domestic legislation on reducing greenhouse gas emissions before acceding to a treaty that forces it to do so. The decision to take on an emissions trading system unilaterally would definitely increase Australia's moral weight in negotiations, Adams said, but in the end all eyes were on the U.S. and China, and if neither was prepared to move rapidly, then she saw little hope of a successful outcome at Copenhagen. Australia National University economist Ross Garnaut's call for developed and developing countries to agree to converge at a common level of per capita emissions resonates strongly with China, India, and the G-77, Adams noted, but was unlikely to be unacceptable in the U.S. or Australia anytime soon. (See more detailed discussion of their views of Garnaut's Draft Supplemental Report in Ref A.)

18. (C/NF) Comment: Parkinson, Comley and Adams represent the best of the Australian public service that plays such a significant role in Canberra. Parkinson and Comley were major players in the design and implementation of the Goods and Services Tax in 2001 -- a politically controversial move strongly opposed by the Labor Party and now widely accepted as having been well designed and implemented. Parkinson and Adams were major players in the Howard Government's climate change policy, which was widely reviled by the then Labor Opposition. Now, the three are key players in designing and implementing the Rudd Government's most complex and politically sensitive policy initiative. While the decision to press ahead with an emissions trading system will be made within Cabinet, it falls on their shoulders to minimize the harm to Australia's national interests from those decisions. Although they are charged with designing a system that will significantly influence Australia's economic future, neither Parkinson nor Comley seemed nervous that the system would undermine domestic growth or international competitiveness. End Comment.

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